

VZCZCXRO5120  
OO RUEHBC RUEHDE RUEHIHL RUEHKUK  
DE RUEHGB #3482/01 2940748  
ZNY CCCCC ZZH  
O 210748Z OCT 07  
FM AMEMBASSY BAGHDAD  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 3929  
INFO RUCNRAQ/IRAQ COLLECTIVE PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 003482

SIPDIS

SIPDIS

E.O. 12958: DECL: 10/21/2017  
TAGS: [PGOV](#) [PTER](#) [ECON](#) [TU](#) [IZ](#)  
SUBJECT: RRT ERBIL: KRG ACCUSES TURKEY OF RESTRICTING  
COMMERCIAL TRAFFIC INTO NORTHERN IRAQ

Classified By: Classified By Jess Bailly, Regional Coordinator for reasons 1.4 (b) and (d).

This is a Regional Reconstruction Team (RRT) Cable.

SUMMARY

-----

¶1. (C) The top customs official at Iraq's second most important transnational crossing for consumer and commercial goods - the Ibrahim Khalil (IK) gate on the border with Turkey - recently told RRTOff that the Turkish military is severely restricting the flow of goods in both directions through IK. Northern Iraq's economy remains heavily dependent upon imports of consumer and commercial goods from Turkey. The IK border crossing is a major source of customs duty revenue for the Kurdistan Regional Government (KRG) and the GoI, though the exact amount collected remains undisclosed to all but a few senior KRG officials, and the KRG likely underreports its receipts to the GoI. Restriction of northern Iraq's primary artery for goods reduces customs revenues and constrains the region's overall economic development. It negatively impacts foreign direct investment from Turkey and elsewhere into the Kurdistan Region, as investors calculate the costs involved with slow movement of vehicles through the IK gate.

¶2. (SBU) The Government of Turkey is keenly aware that vehicle traffic through the IK (known in Turkey as "Habur Gate") affects the KRG's economy far more than that of Turkey. Turkey will therefore likely continue to use its control over IK commercial vehicle traffic as a political lever with which to influence the KRG's stance on the PKK and other border security issues. Iran's recent closure of its border with the Kurdistan Region heightened the importance of Turkey's actions at the IK gate. Embassy Ankara visited IK/Habur Gate in early October and will provide further insight into the Turkish side of the border crossing via septel. On a separate note, the KRG's Director General of Customs at IK requested security-related assistance from the USG, in order to help prevent any attack that could restrict operations at that crucial entry point for foreign goods into Iraq. End Summary.

Background

-----

¶3. (C) RRTOff visited Hameed Ali, the KRG's Director General of Customs, on September 13 at Iraq's Ibrahim Khalil (IK) border crossing with Turkey. The Director General of Customs at IK reports directly to the KRG's Minister of Finance in Erbil. The IK crossing is northern Iraq's primary transit point for foreign consumer and commercial goods. It ranks as Iraq's second-busiest entry point for foreign goods, after the seaport of Umm Qasr near Basrah. (NOTE: Our meeting with Hameed Ali was not easily arranged, due to the sensitivity of his position within the KRG. The KRG Finance Minister and the Minister of Interior became personally involved and

ultimately approved RRTOff,s meeting with Ali. End Note.)

¶4. (SBU) Located within the IK compound on Iraq's border with Turkey in the Dohuk Governorate, the U.S. Army maintains a permanent force of approximately 100 soldiers who escort U.S. military vehicles through the border crossing. RRTOff spoke with the commander of these forces and received his latest daily statistical update regarding both commercial and U.S. military traffic through the border crossing. During the 30 days ended September 28, an average of 865 trucks per day was processed from Turkey to Iraq, compared with 844 trucks per day processed from Iraq to Turkey. The truck backlog at the border totaled 7,470 (8.9 days) on the Iraqi side, compared with 4,700 (5.4 days) on the Turkish side.

#### Cash Customs Duties Flow to KRG in Erbil

-----

¶5. (SBU) According to Ali, imports entering Iraq through IK are taxed at five percent, except for goods purchased by a KRG or Iraqi ministry, the UN, NGOs and other international organizations with customs duty exemption. Ali stated that his operation includes 12 inspection bays and seven computers used to enter data about each truck's contents. The top three types of goods entering Iraq through IK in terms of dollar value are construction materials, electrical materials, and consumer electronics.

¶6. (SBU) Customs duties are paid in cash at IK by a truck's driver, before the truck is allowed to depart the IK area. All customs duties paid at IK are transferred directly to Erbil. Ali said, "The KRG Ministry of Finance gets all the money. I don't know what the KRG does with it after that." The KRG regularly declares its IK customs receipts to the

BAGHDAD 00003482 002 OF 003

Ministry of Finance in Baghdad. The MoF then offsets these declared amounts against funds sent to the KRG under the national revenue sharing agreement. This gives the KRG little incentive to fully declare the amount of its revenues from IK. When asked about the annual dollar volume of customs duties collected at IK, Ali referred RRTOff to the KRG Finance Ministry in Erbil. The KRG has thus far not provided the RRT with meaningful statistics concerning import duties collected at IK. The figures are closely held. A former KRG Finance Ministry official who now works for RTI in Erbil said, "The total revenues (from IK) are known by only very few individuals in the Barzani and Talabani families. Even the Finance Minister himself may not know the total collected there."

¶7. (SBU) Nevertheless, a rough estimate of Iraq's import duty revenues from IK may be obtained by examining the volume of total exports from Turkey to Iraq, as the vast majority of those goods pass through IK. In 2006, Turkey exported \$2.6 billion of goods to Iraq, down somewhat from \$2.8 billion in ¶2005. From January through June 2007, Turkey's exports to Iraq remained flat versus the same period in 2006. Assuming 80 percent of that dollar volume is subjected to Iraq's five percent cash import tax, and ignoring non-Turkish goods flowing into Iraq through IK, Iraq generates at least \$100 million in annual customs duties from Turkish goods entering Iraq through IK.

#### Turkish Military Control of Commercial Truck Volume

-----

¶8. (SBU) Ali stated that commercial traffic between Turkey and Iraq through the IK crossing declined during June and July 2007, due to concern about potential Turkish military operations against the PKK in northern Iraq. He said traffic declined even more following the recent national election in Turkey. According to Ali, the Turkish military controls the flow of trucks in both directions through IK. Ali said, "If the Turkish military wouldn't interfere at the (IK) gate,

traffic would be much greater and smoother." In describing the flow of vehicles on the Turkish side of IK, Ali said Turkey's military "mans and controls" the first checkpoint for both inbound and outbound vehicles at the border crossing. Ali believes the Turkish military has severely restricted the overall flow of traffic through the border. According to Ali, Turkey's Minister of Trade recently told him in Ankara that the ministry's "hands are tied" by the Turkish military on this matter.

¶9. (SBU) Ali stated that cross border traffic at IK was much greater 15 years ago. He said only one bridge connected Turkey and Iraq at IK at that time, compared with the two bridges open today. Ali said, "Every day back then, we had 3,000 trucks in and 3,000 trucks out. Today, Turkey's military only allows about 800 trucks per day into Turkey, and up to 1,000 trucks to leave Turkey into Iraq." Ali refused to speculate about the reasons behind the Turkish military's supposed restrictions on commercial vehicle traffic through the IK gateway. He said, "The Turks say they lack sufficient manpower to staff the crossing. I offered to fund their manpower problem, to try to embarrass them into taking some action, but of course they said no." Ali also contended that the Turkish government has almost eliminated fuel exports into Iraq through IK since September 2006, despite pressure from Turkish fuel vendors who want the fuel exports to resume. He stated that many Turkish businessmen in Iraq continue to strongly appeal to him to somehow boost traffic through IK.

¶10. (SBU) Ali stated that the Ministry of Finance in Baghdad held a meeting on September 17 to assess the desirability of opening a second gate at IK. According to Ali, the Iraq Ministry of Foreign Affairs will soon contact Turkey's MFA to commence the negotiations required to open a second gate. Ali questioned whether this enhancement of the crossing's physical infrastructure would result in increased traffic volume at IK, given his view of the Turkish military's role. Iraq's exports to Turkey account for less than 15 percent of total bilateral trade, and on a tour of the area where trucks wait to cross into Turkey, Ali noted that most return empty after a ten day wait. Such delays, he added, act as a material impediment to Turkish business activities and potential investment in Iraq.

Request For Assistance from USG  
-----

¶11. (SBU) Ali requested that the USG encourage the government of Turkey to increase traffic flow through IK. He said the U.S. should help the Turkish Ministry of Trade understand that increased traffic through IK is "good for both Turks and

BAGHDAD 00003482 003 OF 003

the Iraqi people." He stated, "The Turkish government should brush aside the military at the gate." Ali also encouraged the USG to resume its previous efforts, which he described as "fruitful," to bring Turkish and Kurdish officials together for discussions about IK issues. He said the last bilateral meeting regarding IK issues was held in Ankara in November 2006, and that senior Turkish officials have since refused to meet with him. The U.S. Army at IK told the RRT on September 18 that weekly meetings between Turkish and Iraqi customs officials at IK have recently ceased, following the promotion (and departure) of the Turkish Port Director. The U.S. Army Captain who facilitates these meetings told RRTOff that "it would be beneficial if the Turks would expedite the replacement of the Port Director, so these meetings can resume."

¶12. (SBU) With regard to security related assistance at IK, Ali said, "We can't afford an attack here. This is our (Kurdistan Region's) lifeline." He said he would welcome USG funding to facilitate installation of cargo scanning systems designed to detect explosives and other weapons before they would enter Iraq through IK. In commenting on the potential

for weapons or explosives entering Turkey from Iraq, Ali said, "Not one bomb has crossed from Iraq into Turkey through here. Our men won't allow this." Turkish government and military officials have claimed otherwise.

COMMENT

-----

¶13. (C) The import customs duties generated at IK must theoretically be placed into the GoI's revenue sharing pot that is distributed to each of Iraq's governorates on a per capita basis. In practice, however, the amount of IK revenues reported by the KRG to the GoI is probably understated, with the difference accruing to some combination of the KDP, PUK and leading politicians in the Kurdistan Region. This suspected skimming of IK revenues is at least partially enabled by the cash payments of customs duties that predominate at IK. In addition, the recordkeeping on-site and within the KRG has been made purposefully opaque to observers both inside and outside of the GoI. Without inside information from one or more trusted sources, neither the GoI nor the USG will be able to identify and assess the skimming off of customs duties at IK.

¶14. (C) The flow level of commercial and consumer goods through the IK gate directly impacts KRG and USG efforts to support economic development in northern Iraq. All indicators in Iraq point toward the Turkish military, government, or some combination thereof restricting that flow of goods. The Government of Turkey understands well that the KRG depends upon vehicle traffic through the IK far more than Turkey, especially given Iran's recent decision to close its border crossings with the Kurdistan Region. Turkey will likely continue to use its control over IK commercial vehicle traffic as a political lever with the KRG, to be utilized in varying degrees as Turkey attempts to influence KRG policies and practices on security-related issues. Embassy Ankara visited IK/Habur Gate in early October and will provide insight into the Turkish side of the border crossing via septel.

CROCKER